

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-07 ISO-00 NEA-10 IO-13 H-01 L-03 PRS-01
PA-01 SP-02 USIA-06 AID-05 EB-08 NSC-05 SS-15
STR-04 OMB-01 CEA-01 CIAE-00 COME-00 FRB-03
INR-07 NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 /104 W
-----074148 040328Z /66

P 040225Z AUG 77
FM AMEMBASSY MANILA
TO SECSTATE WASHDC PRIORITY 3272

LIMITED OFFICIAL USE SECTION 1 OF 2 MANILA 12051

USADB

FOR NAC AGENCIES

PASS TREASURY FOR BRADFORD/MUNK

E. O. 11652: NA
TAGS: EAID, EFIN
SUBJECT: GUARANTEE OPERATIONS BY ADB

SUMMARY: ADB DOCUMENT ON ABOVE SUBJECT NOTES THAT
BANK'S CHARTER IS MORE RESTRICTIVE THAN THOSE OF OTHER SIMILAR
INTERNATIONAL INSTITUTIONS WITH RESPECT TO PROVIDING GUARANTEES
FOR BOND ISSUES BY DEVELOPING COUNTRIES. IT CONCLUDES INTER
ALIA THAT SCOPE FOR BANK TO PROVIDE SUCH GUARANTEES IS
CONFINED TO SPECIFIC LOANS FOR ECONOMIC DEVELOPMENT PARTICIPATED
IN BY BANK, AND THAT GENERAL BOND ISSUES OF DEVELOPING COUNTRIES
WOULD NOT BE ELIGIBLE FOR GUARANTEE BY BANK. MANAGEMENT PROPOSES
THAT BANK TAKE NO FURTHER INITIATIVE IN MATTER AT PRESENT TIME
BUT BE PREPARED TO CONSIDER ANY GUARANTEE PROPOSAL IN A SPECIFIC
MAJOR PROJECT :\$3.G., A LARGE INDUSTRIAL PORJECT INVOLVING
REGIONAL OR SUB-REGIONAL ECONOMIC COOPERATION) WHERE BANK WOULD
BE PREPARED TO CONSIDER A LOAN ANS WHERE TOTAL FOREX COST
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SUBSTANTIALLY EXCEEDS WHAT BANK AND ANY CO-FINANCIERS MAY
BE REASONABLY EXPECTED TO MAKE AVAILABLE. NAC VIEWS
REQUESTED. END SUMMARY.

1. AT TENTH ANNUAL MEETING OF BOARD OF GOVERNORS LAST
APRIL IN MANILA, REQUEST WAS MADE THAT BANK EXAMINE
POSSIBILITY OF PROVIDING GUARANTEE FACILITIES TO SUPPORT

BOND ISSUES OF DMCS IN INTERNATIONAL CAPITAL MARKETS. IN ADDITION, LAST APRIL DEVELOPMENT COMMITTEE RECOMMENDED THAT WORLD BANK AND REGIONAL BANKS SHOULD USE EXISTING POWERS AND CONSIDER REQUESTS FOR GUARANTEE OR PARTIAL GUARANTEES OF BOND ISSUES FROM INTERESTED DEVELOPING COUNTRIES WITH EXPECTATION THAT THIS WILL EARN ADDITIONAL RESOURCES TO BECOME AVAILABLE TO THE COUNTRIES. COMMITTEE ALSO RECOMMENDED THAT, IN CONSIDERING FUTURE CAPITAL INCREASES, THESE INSTITUTIONS SHOULD TAKE ACCOUNT OF AND MAKE APPROPRIATE PROVISIONS FOR POSSIBLE GUARANTEE OPERATIONS. COMMITTEE FURTHER REQUESTED ITS WORKING GROUP ON ACCESS TO CAPITAL MARKETS TO EXPLORE, IN CONSULTATION WITH THESE INSTITUTIONS AS WELL AS WITH PRIVATE MARKETS, POSSIBILITY OF SUCH OPERATIONS AND TO REPORT TO COMMITTEE AT ITS NEXT MEETING IN EARLY OCTOBER 1977.

2. ADB'S POWER TO UNDERTAKE GUARANTEE OPERATIONS IS REFERRED TO IN ARTICLE II (IV) AND ARTICLE 21 (III) OF CHARTER. BANK'S POWER TO GUARANTEE LOANS UNDER ARTICLE II (IV) IS EXPRESSLY RESTRICTED TO QUOTE LOANS FOR ECONOMIC DEVELOPMENT PARTICIPATED IN BY THE BANK UNQUOTE, WHEREAS CHARTERS OF IBRD AND IDB DO NOT HAVE SIMILAR RESTRICTIONS. IN VIEW ARTICLE II (IV) AND ITS LEGISLATIVE HISTORY, BANK MANAGEMENT BELIEVES ARTICLE MAY BE EXERCISED ONLY WHERE THERE IS A DEVELOPMENT PROJECT OR PROGRAM APPROPRIATE FOR FINANCING IN ACCORDANCE WITH BANK'S LENDING POLICIES AND BANK HAS LIMITED OFFICIAL USE

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ACTUALLY PARTICIPATED IN FINANCING SUCH PROJECT/PROGRAM AS CO-LENDER. IT WOULD ALSO FOLLOW THAT BANK'S GUARANTEE POWER, IF EXERCISED, COULD ONLY BE FOR BOND ISSUES RELATED TO A SPECIFIC PROJECT/PROGRAM AND NOT FOR GENERAL BOND ISSUES. BANK'S POWER TO GUARANTEE SECURITIES UNDER ARTICLE 21 (III) IS LIMITED TO QUOTE SECURITIES IN WHICH IT HAS INVESTED UNQUOTE. ALSO, AS THIS ARTICLE WAS INCLUDED IN CHARTER'S CHAPTER IV ON QUOTE BORROWING AND OTHER MISCELLANEOUS POWERS UNQUOTE AND NOT IN CHAPTER III TITLED QUOTE OPERATIONS UNQUOTE, IT APPEARS THIS ARTICLE WAS INTENDED TO APPLY ONLY IN THOSE CASES WHERE BANK ITSELF DESIRES TO SELL SECURITIES IN ITS OWN PORTFOLIO.

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ACTION TRSE-00

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STR-04 OMB-01 CEA-01 CIAE-00 COME-00 FRB-03
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-----074217 040330Z /66

P 040225Z AUG 77
FM AMEMBASSY MANILA
TO SECSTATE WASHDC PRIORITY 3273

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USADB

FOR NAC AGENCIES

PASS TREASURY FOR BRADFORD/MUNK

3. IN ADDITION, ARTICLE 12 (I) LIMITED BANK'S TOTAL AMOUNTS OF OUTSTANDING LOANS, EQUITY INVESTMENTS AND GUARANTEES IN ITS ORDINARY OPERATIONS TO TOTAL UNIMPAIRED SUBSCRIBED CAPITAL, RESERVES AND SURPLUS IN ITS OC RESOURCES. ALSO, BOARD OF DIRECTORS IN JANUARY 1968 ADOPTED RESOLUTION RESTRICTING TOTAL OUTSTANDING AMOUNT OF BORROWINGS AND GUARANTEES TO AMOUNT OF CALLABLE CAPITAL SUBSCRIBED BY QUOTE CONVERTIBLE CURRENCY UNQUOTE MEMBER COUNTRIES. EFFECT OF THESE PROVISIONS IS THAT ANY GUARANTEE PROVIDED BY BANK WILL CORRESPONDINGLY REDUCE AMOUNT BANK CAN BORROW FOR ITS LENDING OPERATIONS, AND EVERY GUARANTEE PROVIDED BY BANK TO ITS DMCS WOULD REDUCE, BY EQUIVALENT AMOUNT, TOTAL AMOUNT OF DIRECT LENDING WHICH BANK CAN PROVIDE. THUS, ARGUMENT ADVANCED IN FAVOR OF GUARANTEE OPERATIONS THAT IT WOULD LEAD TO ADDITIONAL RESOURCE FLOWS FROM BANK TO ITS DMCS WOULD BE INVALID UNLESS THERE IS WILLINGNESS TO INCREASE, FOR THAT PURPOSE, LIMITED OFFICIAL USE

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BANK'S (CALLABLE) CAPITAL. IN EFFECT, GUARANTEE OPERATIONS FOR ANY BORROWER MAY ONLY MEAN SUBSTITUTION OF LOWER COST AND LONG TERM LOAN FINANCING BY HIGHER COST AND SHORTER TERM GUARANTEE FINANCING. ONE OTHER MAJOR INHIBITING FACTOR IS THAT EVEN WITH RECENTLY APPROVED 135 PERCENT CAPITAL INCREASE, BANK'S ORDINARY RESOURCE POSITION WILL REMAIN TIGHT IN RELATION TO EXPECTED DEMAND FOR LAONS UNTIL 1981.

4. MANAGEMENT THEREFORE PROPOSES THAT:

(A) BANK TAKE NO FURTHER INITIATIVE IN THE MATTER AT
PRESENT TIME; BUT

(B) BE PREPARED TO CONSIDER, ON ITS MERITS, ANY
PROPOSAL THAT MAY BE RECEIVED FROM A POTENTIAL BORROWER
FOR USE OF GUARANTEE MECHANISM IN A SPECIFIC MAJOR PROJECT
(AS FOR INSTANCE A LARGE INDUSTRIAL PROJECT INVOLVING
REGIONAL OR SUB-REGIONAL ECONOMIC COOPERATION) WHERE BANK
WOULD BE PREPARED TO CONSIDER A LOAN AND WHERE TOTAL FOREX
COST OF PROJECT IS SUBSTANTIALLY IN EXCESS OF WHAT BANK
AND CO-FINANCERS MAY BE REASONABLY EXPECTED TO MAKE
AVAILABLE; AND

(C) IN SUCH CASES, SPECIFIC PROPOSALS (INCLUDING
REASONABLE GUARANTEE FEE) BE DEVELOPED AND SUBMITTED TO
BOARD FOR CONSIDERATION AND DECISION BEFORE ANY FIRM
RESPONSE IS MADE BY BANK TO APPLICANT.

(D) IF ABOVE MEET WITH APPROVAL OF BOARD, EXECUTIVE
SECRETARIAT OF DEVELOPMENT COMMITTEE BE INFORMED
ACCORDINGLY.

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5. ADB DOC. WORKING PAPER 5-77 ON ABOVE SUBJECT WAS
POUCHED AUGUST 2 AND WILL BE CONSIDERED BY BOARD ON
AUGUST 23. IN USADB VIEW, MANAGEMENT HAS PRESENTED WELL-
REASONED PAPER, AND WE RECOMMEND THAT USADB BE AUTHORIZED
TO SUPPORT RECOMMENDATIONS. NAC VIEWS REQUESTED.
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Message Attributes

Automatic Decaptioning: X
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Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
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Errors: N/A
Expiration:
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TAGS: EAID, EFIN, ADB
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/1ca5fc61-c288-dd11-92da-001cc4696bcc
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